

BANK INDONESIA REGULATION
NUMBER: 8/21/PBI/2006
CONCERNING
THE QUALITY RATING
OF ASSETS OF COMMERCIAL BANKS CONDUCTING BUSINESS BASED
ON SHARIA PRINCIPLES

THE GOVERNOR OF BANK INDONESIA,

- Considering :
- a. whereas sustainability of banks conducting business based on sharia principles depends on their ability to conduct placements of funds by considering risk and prudential principles as on assets quality and sufficient allowance for assets losses;
 - b. whereas it is necessary to enforce obligation of rating on assets quality and allowance for assets losses on earning assets and non-earning assets;
 - c. whereas stipulations on assets quality and allowance for assets losses are interrelated that it is necessary to join those stipulations in one regulation.
 - d. whereas pursuant to the considerations set forth in letter a, letter b, and letter c, it is deemed necessary to reorganize stipulations concerning assets quality for banks conducting business based on sharia principles in a Bank

Indonesia Regulation;

- In view of :
1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement of the State Gazette of the Republic Indonesia Number 3472) as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement of the State Gazette of the Republic of Indonesia Number 3790);
 2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);

HAS DECREED :

To enact : BANK INDONESIA REGULATION CONCERNING THE QUALITY RATING OF ASSETS OF COMMERCIAL BANKS CONDUCTING BUSINESS BASED ON SHARIA PRINCIPLES.

CHAPTER I

GENERAL PROVISIONS

Article 1

Terminologies used in this Bank Indonesia Regulation are defined as follows.

1. Bank is ...

1. Bank is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 conducting business based on sharia principles, including sharia business unit and foreign bank branch office conducting business based on sharia principles.
2. Sharia Business Unit, hereinafter referred to as UUS, is a working unit in a conventional commercial bank head office functioning as the main office of sharia branch offices and/or sharia units.
3. Earning Assets are placements of Bank funds either denominated in the rupiah or foreign currency in the form of financing, sharia securities, placement, equity participation, temporary equity participation, commitment, contingency on administrative account transactions, and Bank Indonesia *Wadiah* Certificate.
4. Financing is a provision of funds or claims considered of the kind in the form of :
 - a. profit sharing transaction in the form of *Mudharabah* and *Musyarakah*;
 - b. leasing transaction in the form of *Ijarah* or leasing with an option of transferring ownership in the form of *Ijarah Muntahiyah bit Tamlik*;
 - c. sale and purchase transaction in the form of *Murabahah*, *Salam*, and *Istishna'* account receivables;
 - d. lending-borrowing transaction in the form of *Qardh*; and
 - e. multiple service transaction under *Ijarah* or *Kafalah* agreement;based on an agreement between Bank and another party requiring the party receiving finance and/or facility of funds to repay the funds after a specific term with repayment services, without repayment services, or profit sharing.
5. *Mudharabah* is an investment from a fund owner (*shahibul maal*) to a fund manager (*mudharib*) to conduct a specific business, with a division of profit using profit sharing method or net revenue sharing method between those

two parties ...

two parties based on a ratio agreed in advance.

6. *Musyarakah* is an investment from a fund/capital owner to mix the fund/capital into a specific business, with a sharing of profit to be based on a ratio agreed in advance, while losses shall be borne by all fund/capital owners based on the proportion of respective fund/capital.
7. *Murabahah* is a sale and purchase of goods amounting to the cost price of the goods plus a margin of profit as agreed.
8. *Salam* is a sale and purchase of goods with a full payment of the price in advance.
9. *Istishna'* is a sale and purchase of goods by ordering to make the goods in specific criteria and condition and to be paid as agreed.
10. *Ijarah* is a leasing agreement between a leasing object owner including ownership on using right on the leasing object, between a leasing object owner and a lessee to acquire repayment services from the leasing object on leasing.
11. *Ijarah Muntahiyah bit Tamlik* is a leasing agreement between a leasing object owner and a lessee to acquire repayment services from the leasing object on leasing with option of transferring the ownership of leasing object either through sale and purchase or donation (grant) at a specified time as agreed.
12. *Qardh* is an agreement on lending and borrowing of funds without any repayment service requiring the debtor to repay the principal all at once or in installments in a specified term.
13. Sharia Securities is a certificate proving an investment based on sharia principles customarily traded on the money and/or capital markets, including but not limited to sharia bond, sharia mutual fund certificate, and other securities based on sharia principles.
14. Placement is a placement of Bank funds in other Bank and/or Rural Bank

based on ...

based on sharia principles in the form including but not limited to *Mudharabah* and/or *Wadiah* non-negotiable deposit and/or savings deposit, *Mudharabah* savings deposit and/or time deposit, finance extended, and/or other forms of placement based on sharia principles.

15. Equity Participation is a placement of Bank funds in the form of share in a company conducting business in sharia finance, including investment in the form of convertible bond with equity options or specific transactions based on sharia principles resulting Bank in holding or will hold shares in a company conducting business in sharia finance.
16. Company Conducting Business in Sharia Finance is a Bank, a Rural Bank based on sharia principles, and other companies in finance based on sharia principles as referred to in applicable laws, including but not limited to leasing, venture capital, securities company, insurance, and clearing house.
17. Temporary Equity Participation is a placement of Bank funds in customer's company to resolve financing failure and/or debt to equity swap as referred to in applicable Bank Indonesia stipulations, including in the form of convertible bond with equity options or specific transactions resulting Bank in holding or will hold shares in a customer's company.
18. Revenue Projection (RP) is an estimated revenue to be received by Bank from customer in respect of *Mudharabah* and *Musyarakah* Financing extended in the amount and at the maturity date agreed by the Bank and the customer.
19. Realized Revenues (RR) are revenues acquired by Bank from customer in respect of *Mudharabah* and *Musyarakah* Financing extended.
20. Administrative Account Transaction is a commitment and contingency (off balance sheet) based on sharia principles comprising bank guarantee, endorsement, undergoing Irrevocable Letter of Credit (L/C), import draft

acceptance ...

acceptance on the basis of time L/C, standby L/C, and other guarantees based on sharia principles.

21. Bank Indonesia *Wadiah* Certificate, hereinafter referred to as SWBI, is a certificate issued by Bank Indonesia as a proof of a short-term fund depositing based on *Wadiah* principles.
22. *Wadiah* is an agreement on fund or goods depositing from a fund or goods owner to a party entrusted to keep the deposit of funds or goods requiring the party entrusted to keep to return the deposit of funds or goods at any time.
23. Non-earning Assets are Bank's assets other than Earning Assets bearing potential losses, in the form including but not limited to collateral takeover, Left Unfinished Property, inter-office account, suspense account, and inventory.
24. Other Real Estate Owned, hereinafter referred to as OREO, is assets obtained by Bank either through auction or over the counter based on a voluntary transfer by a collateral owner or based on a power of attorney to sell over the counter from the collateral owner in the event that customer fails to settle its liabilities to Bank.
25. Inter-office Account is claims arising from unsettled inter-office transactions in a specific period of time.
26. Suspense Account is an account of which the recording objectives are not identified or not supported by sufficient recording documentation thus it can not be reclassified in the required account.
27. Inventory is non-cash assets available for :
 - a. selling with *Murabahah* agreement;
 - b. delivery as a part of bank capital in financing agreement based on *Mudharabah* and *Musyarakah* principles;
 - c. extension in parallel *Salam* or *Salam* agreement; and/or

- d. *Istishna'* assets which have been settled but have not been delivered by Bank to ultimate buyer.
28. Allowance for Assets Losses, hereinafter referred to as PPA, is a reserve to be established amounting to a certain percentage based on assets quality.
29. Independent Appraiser is an appraising company which :
- a. Is not related in ownership, management, and finance either with Bank or customer obtaining facilities;
 - b. Conducts appraising activities based on professional code of ethics and regulations stipulated by competent institution;
 - c. Applies appraising methods based on appraisal profession standard issued by competent institution;
 - d. Holds business license issued by competent institution to operate as an appraising company; and
 - e. Is recorded as a member of an association recognized by competent institution;
30. Market Approach is an amount of money expected to be obtainable from a sale and purchase transaction or exchange of an asset on the date of rating after deducted by transaction costs; the selling and buying parties have no relationship before, have knowledge on the assets to be traded, and exercise transaction in unforced condition.
31. Finance Restructuring is an improvement effort made by Bank in Provision of Funds for a customer experiencing difficulties to meet its liabilities referring to applicable stipulations, namely religious instructions of the National Sharia Council and applicable financial accounting standards for sharia bank.

CHAPTER II
ASSETS QUALITY

Article 2

- (1) Placement and/or provision of Bank funds shall be made on the basis of prudential principles and shall comply with sharia principles.
- (2) Bank management is required to rate, monitor, and take anticipatory measures to ensure that Assets quality continues to be Current.

Article 3

Quality rating shall be conducted on Earning Assets and Non-earning Assets.

Article 4

- (1) Bank is required to conduct and determine Assets rating in accordance with this Bank Indonesia Regulation.
- (2) In case of any difference in the rating of Assets between Bank and Bank Indonesia, the Assets quality to be in effect is the quality stipulated by Bank Indonesia.
- (3) Bank is required to adjust Assets quality in accordance with the quality stipulated by Bank Indonesia as referred to in paragraph (2) in reports to be submitted to Bank Indonesia and/or condensed financial statement as referred to in applicable Bank Indonesia stipulations, by no later than the following reporting period after the notice from Bank Indonesia.

CHAPTER III
EARNING ASSETS

Part One
General Provisions

Article 5 ...

Article 5

- (1) Bank is required to determine a same quality on several Earning Assets accounts used to finance 1 (one) customer in 1 (one) same bank.
- (2) The rating of the same quality as referred to in paragraph (1) shall also be in force on Earning Assets in the form of provision of funds or claims extended by more than 1 (one) Bank conducted based on a joint-financing agreement and/or syndication.
- (3) In case of any difference in the rating of Earning Assets quality as referred to in paragraph (1) and paragraph (2), the quality of respective Earning Assets shall take the lowest Earning Assets quality.
- (4) Stipulation as referred to in paragraph (3) may be exempted in the event that Earning Assets quality is rated under different factors of rating.
- (5) Not included in the lowest Earning Assets quality as referred to in paragraph (3) is Earning Assets quality which is rated by applying additional rating factor of the Republic of Indonesia country risk.

Article 6

- (1) Bank is required to hold internal stipulations regulating criteria and requirements of customer required to submit financial report which has been audited by Public Accountant, including stipulation on the deadline of the report submission.
- (2) The customer's requirement to submit financial report as referred to in paragraph (1) shall be stated in the agreement between Bank and customer.
- (3) The internal stipulation as referred to in paragraph (1) shall refer to applicable laws.
- (4) Earning Assets quality of a customer which does not submit financial report as referred to in paragraph (1) shall be downgraded one level and be rated as high as Substandard.

Article 7 ...

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Article 7

Earning Assets quality shall be rated on a monthly basis.

Article 8

- (1) Placement of Bank funds in the form of Earning Assets shall be fully documented;
- (2) Earning Assets quality which has been determined by Bank as Current and Under Special Mention shall be downgraded by Bank Indonesia to be as high as Substandard if the customer's documentation fail to provide sufficient information.

Part Two
Financing
Article 9

- (1) Earning Assets quality in the form of Financing shall be rated by :
 - a. business prospect;
 - b. customer's performance; and
 - c. repayment ability;
- (2) Financing quality shall be rated into 5 (five) classifications, namely Current, Under Special Mention, Substandard, Doubtful, and Loss.

Article 10

- (1) The rating on business prospect as referred to in Article 9 paragraph (1) letter a shall include rating on the following components.
 - a. business growth potential;
 - b. market condition and customer's position in competition;
 - c. management quality and manpower matters;

d. support ...

- d. support from the group or affiliated parties; and
 - e. efforts made by customer in the framework of the preservation of living environments.
- (2) The rating on customer's performance as referred to in Article 9 paragraph (1) letter b shall include rating on components as follows.
- a. profit earnings;
 - b. capital structure;
 - c. cash flow; and
 - d. sensitivity to market risk.
- (3) The rating on repayment ability as referred to in Article 9 paragraph (1) letter c shall include rating on the following components.
- a. promptness of principal and margin/profit share/fee payments;
 - b. availability and accuracy of customer's financial information;
 - c. completeness of Financing documentation;
 - d. compliance with Financing agreement;
 - e. conformity of use of funds; and
 - f. properness of liability repayment source.

Article 11

- (1) Financing quality shall be rated by analysis on rating factors as referred to in Article 9 taking into account those components as referred to in Article 10.
- (2) Financing quality rating as referred to in paragraph (1) shall take into account:
- a. Significance and materiality of each rating factor and component; and
 - b. Relevance of rating factor and component to the concerned customer.

Article 12 ...

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Article 12

- (1) Rating on *Mudharabah* and *Musyarakah* Financing qualities which is based on repayment ability shall refer to promptness of principal repayment and/or achievement of the ratio of Realized Revenue (RR) on Revenue Projection (RP).
- (2) Calculation of RR and RP as referred to in paragraph (1) for the rating of *Mudharabah* and *Musyarakah* Financing qualities per term shall be based on accumulation average in the duration of undergoing *Mudharabah* and *Musyarakah* Financing.
- (3) Calculation of RP shall be based on business viability analysis and customer's cash inflow in the duration of *Mudharabah* and *Musyarakah* Financing.
- (4) Bank may revise RP based on agreement with customer in the event of a change in macroeconomic, market, and political condition which influence customer's business.
- (5) Bank is required to include RP and revision of RP in *Mudharabah* and *Musyarakah* Financing agreement between Bank and customer and shall be fully documented.
- (6) Bank may revise RP at a maximum of :
 - a. 1 (one) time for *Mudharabah* and *Musyarakah* Financing with a term of up to 1 (one) year;
 - b. 2 (two) times for *Mudharabah* and *Musyarakah* Financing with a term of more than 1 (one) year.

Article 13

- (1) Principal installment payment of *Mudharabah* and *Musyarakah* Financing as referred to in Article 12 paragraph (1) may be made during the term of

Financing ...

Financing as agreed by Bank and customer.

- (2) If the term of *Mudharabah* and *Musyarakah* Financing is more than 1 (one) year, the principal installment repayment of Financing as referred to in paragraph (1) shall be made in stages in accordance with cash inflow projection of customer's business.
- (3) The principal installment repayments as referred to in paragraph (1) shall be stated in *Mudharabah* and *Musyarakah* Financing agreement between Bank and customer, and shall be fully documented.

Part Three

Sharia Securities

Article 14

Bank is required to hold written policy and procedures of Earning Assets in the form of securities as follows.

- a. Policy on Earning Assets in the form of securities shall be approved by the Board of Commissioners;
- b. Procedures of Earning Assets in the form of securities shall be approved at least by the Board of Directors;
- c. The Board of Commissioners is required to conduct an active supervision on the implementation of policy on Earning Assets in the form of securities;
- d. Policy and procedures on Earning Assets in the form of securities are parts which can not be separated from Bank risk management policy as referred to in applicable Bank Indonesia stipulations.

Article 15

- (1) Bank may only hold Sharia Securities in the form of sharia bond with the objective of investment.

(2) In the event ...

- (2) In the event of any liquidity problem faced by Bank, the Sharia Securities held by the Bank as referred to in paragraph (1) may be sold prior to its maturity.

Article 16

- (1) Quality of Sharia Money Market Securities shall be rated as Current provided that it meets requirements as follows.

- a. There are transparent information on the securities;
- b. Repayment services are received in a proper amount and appropriate term as agreed; and/or
- c. Has not been mature.

Sharia Money Market Securities failing to meet requirements as referred to in letter a, letter b, and letter c shall be categorized Loss.

- (2) Sharia Securities outside those as referred to in paragraph (1) include but not limited to the following.

- a. Commercial securities based on sharia principles;
- b. Bonds based on sharia principles which are recorded and traded in Capital Market;
- c. Securities which are linked or guaranteed with specific assets based on sharia principles;
- d. Other securities based on sharia principles;

- (3) Classification of Securities quality as referred to in paragraph (2) shall be as follows.

- a. Current, if :
 - 1. Holds investment rating or higher than rating agency recognized by Bank Indonesia and issued during the latest one year;
 - 2. Occasional payments of profit share/margin/fee or other liabilities of

the kind ...

the kind are made in proper amount and appropriate term as agreed;
and

3. Has not been mature;

b. Substandard, if :

1. Holds investment rating or higher than rating agency recognized by Bank Indonesia and issued during the latest one year;

2. Delay occurs in occasional payments of profit share/margin/fee or other liabilities of the kind; and

3. Has not been mature;

or

1. Holds a rating of no less than 1 (one) level under investment rating of a rating agency recognized by Bank Indonesia and issued during the latest one year;

2. No delay occurs in occasional payments of profit share/margin/fee or other liabilities of the kind; and

3. Has not been mature;

c. Loss, if securities do not meet criteria as referred to in letters a and b.

Article 17

(1) Bank is prohibited from holding Earning Assets in the form of shares and/or Securities which are linked or guaranteed with underlying reference assets in the form of shares.

(2) Bank may only hold securities which are linked or guaranteed with underlying reference assets and based on sharia principles provided that :

a. Underlying reference assets may be relied on;

b. Bank has a right on underlying reference assets or right on the value of underlying reference assets;

c. Bank holds ...

- c. Bank holds clear, appropriate, and accurate information on the details of underlying reference assets, including issuer and value of respective underlying reference assets, and any change; and
- d. Bank administers details of the composition and issuer of underlying reference assets and adjusts the administration in case of any change of assets composition.

Article 18

- (1) Quality of securities which are linked or guaranteed with underlying reference assets as referred to in Article 17, of which liabilities repayment is directly linked with underlying reference assets (*pass through*), either can be repurchased by issuer or can not (*non redemption*), shall be rated based on :
 - a. Securities quality as referred to in Article 16 paragraph (2);
 - b. Quality of assets underlying securities if the securities have no rating; or
- (2) For securities in the form of mutual fund, the quality rating shall be based on:
 - a. Quality of mutual fund certificate in accordance with securities quality rating as referred to in Article 16 paragraph (2); or
 - b. Quality of assets underlying mutual fund certificate and quality of certificate issuer, if the mutual fund certificate has no rating.

Article 19

Bank Indonesia *Wadiah* Certificate (SWBI) and Securities and/or claims issued by the Government based on sharia principles held by Bank shall be classified Current.

Part Four

Capital Participation

Article 20

(1) Equity ...

- (1) Equity Participation with the Bank's share less than 20% (twenty percent) shall be recorded by cost method and its classification of quality shall be as follows.
 - a. Current, if based on the latest reporting year's audited financial statement, the company where Bank places participation acquires profit and does not experience cumulative loss;
 - b. Substandard, if based on the latest reporting year's audited financial statement, the company where Bank places participation experiences losses up to 25% (twenty five percent) of the company's capital;
 - c. Doubtful, if based on the latest reporting year's audited financial statement, the company where Bank places participation experiences losses more than 25% (twenty five percent) up to 50% (fifty percent) of the company's capital;
 - d. Loss, if based on the latest reporting year's audited financial statement, the company where Bank places participation experiences losses more than 50% (fifty percent) of the company's capital;
- (2) Equity Participation with a Bank's share of 20% (twenty percent) or more shall be recorded by equity method and classified Current.
- (3) Further stipulations relating to Equity Participation refer to Bank Indonesia Regulation regulating prudential principles in equity participation and applicable religious instructions of the National Sharia Council.

Article 21

- (1) Quality of Temporary Equity Participation shall be rated based on the term of participation as referred to in this Bank Indonesia Regulation.
- (2) The qualities of Temporary Equity Participation shall be as follows.
 - a. Current, if has not surpassed the term of 1 (one) year;

b. Substandard ...

- b. Substandard, if has surpassed the term of 1 (one) year but has not surpassed the term of 4 (four) years;
 - c. Doubtful, if has surpassed the term of 4 (four) years but has not surpassed the term of 5 (five) years;
 - d. Loss, if has surpassed the term of 5 (five) years or has not been withdrawn although the debtor's company has acquired cumulative profit.
- (3) Bank Indonesia may downgrade the quality of Temporary Equity Participation as referred to in paragraph (2) if there are significant evidences that :
- a. Temporary Equity Participation is expected to be sold in a lower price than that of the residual/book value; and/or
 - b. Temporary Equity Participation of the term of 5 (five) years is expected to be difficult to sell.
- (4) Further stipulations on Temporary Equity Participation refer to Bank Indonesia Regulation concerning prudential principles in Equity participation and applicable religious instructions of the National Sharia Council.

Part Five

Placements

Article 22

Bank is required to hold written policy and procedures on Earning Assets in the form of Placement as follows.

- a. Policy on Placement shall be approved by the Board of Commissioners;
- b. Procedures of Placement shall be approved at least by the Board of Directors;
- c. The Board of Commissioners shall conduct active supervision on the implementation of Placement policy;
- d. Placement policy and procedures are parts which can not be separated from

Bank risk ...

Bank risk management policy as referred to in applicable Bank Indonesia stipulations.

Article 23

Placement quality shall be rated as Current provided that the Placement is guaranteed by the Depository Guarantee Institution.

Article 24

If guarantee program of Depository Guarantee Institution does not meet requirements of guarantee program of Depository Guarantee Institution as referred to in Article 23, the quality of Placement shall be rated as follows.

a. Current, if :

- 1) bank receiving Placement holds Minimum Capital Requirement ratio at least equal to that stipulated; and
- 2) there is no arrear in principal repayment for those based on *Wadiah/Qardh* principles, or there is no arrear in payment of principal and/or profit share for those based on *Mudharabah* and *Musyarakah* principles, or Realized Revenue (RR) equal or more than 80% (eighty percent) of Revenue Projection (RP) for *Mudharabah Musyarakah* Financing, or there is no arrear in payment of principal and/or margin for those based on *Murabahah* principles.

b. Substandard, if :

- 1) bank receiving Placement hold Minimum Capital Requirement ratio at least at the same level with the applicable stipulation; and
- 2) there is arrear in principal repayment for those based on *Wadiah/Qardh* principles, or there is arrear in payment of principal and/or profit share for those based on *Mudharabah* and *Musyarakah* principles, or RR over 30%

(thirty percent) ...

(thirty percent) of RP up to 80% (eighty percent) of RP or $RR \leq 30\%$ (thirty percent) of RP up to 3 (three) periods of payment for *Mudharabah* and *Musyarakah* Financing, or there is arrear in payment of principal and/or margin for those based on *Murabahah* principles up to 5 (five) working days.

c. Loss, if :

- 1) bank receiving Placement holds a Minimum Capital Requirement ratio less than applicable stipulation;
- 2) bank receiving Placement has been stated and announced as a bank with a status of special surveillance or bank has been imposed on sanction of freezing of its entire business activity;
- 3) bank receiving Placement is stated as a bank under liquidation; and/or
- 4) there is arrear in principal repayment for those based on *Wadiah/Qardh* principles, or there is arrear in payment of principal and/or profit share for those based on *Mudharabah* and *Musyarakah* principles, or $RR \leq 30\%$ (thirty percent) of RP more than 3 (three) periods of payment for *Mudharabah* and *Musyarakah* Financing, or there is arrear in payment of principal and/or margin for those based on *Murabahah* principles more than 5 (five) working days.

Part Six

Administrative Account Transactions

Article 25

Quality of Administrative Account Transactions shall be classified and rated in accordance with stipulations on Financing quality classification for respective transaction as referred to in Article 9.

Article 26 ...

Article 26

- (1) Rating of Financing quality and Administrative Account Transactions amounting up to Rp500,000,000.00 (five hundred million rupiahs) for individual or group customers shall be based only on their repayment ability as referred to in Article 9 paragraph (1) letter c.
- (2) Rating of Financing quality and Administrative Account Transactions amounting to higher than Rp500,000,000.00 (five hundred million rupiahs) either for individual or group customers shall be based on stipulation as referred to in Article 9 paragraph (1).

Part Seven

Provision of Funds in Certain Areas

Article 27

Other Financing and provision of funds for customers with business activities located in certain areas shall be based on repayment ability.

CHAPTER IV

NON-EARNING ASSETS

Part One

General Provisions

Article 28

- (1) Non-earning assets required to be rated include OREO, Left Unfinished Property, Inter-office Account, Suspense Account, and Inventory.
- (2) Non-earning Assets quality shall be rated on a monthly basis.

Part Two

Other Real Estate Owned

Article 29 ...

Article 29

- (1) Bank is required to take efforts in the settlement of OREO owned.
- (2) The efforts in OREO settlement shall be fully documented as referred to in paragraph (1).

Article 30

- (1) Bank is required to re-evaluate the OREO to determine OREO net realizable value, which shall be conducted at the moment of collateral takeover.
- (2) The net realizable value as referred to in paragraph (1) shall be determined by Independent Appraiser for an OREO with a value of Rp5,000,000,000.00 (five billion rupiahs) or more; for an OREO with a value of lower than Rp5,000,000,000.00 (five billion rupiahs) it may be determined by Bank internal appraiser.
- (3) In the event of occurrence of several values from independent or Bank internal appraiser, Bank is required to take the lowest value.

Article 31

- (1) Quality of OREO which has been under settlement efforts as referred to in Article 30 shall be classified as follows.
 - a. Current, if OREO is held up to 1 (one) year;
 - b. Substandard, if OREO is held more than 1 (one) year up to 3 (three) years;
 - c. Doubtful, if OREO is held more than 3 (three) years up to 5 (five) years;
 - d. Loss, if OREO is held more than 5 (five) years.
- (2) Quality of OREO which is not in seek of settlement as referred to in Article 29 shall be classified one level lower than that stipulated as referred to in paragraph (1).

Part Three

Left Unfinished Property

Article 32

- (1) Bank is required to identify and determine Left Unfinished Property owned.
- (2) Left Unfinished Property owned as referred to in paragraph (1) shall be approved by the Board of Directors and fully documented.

Article 33

- (1) Bank is required to make the efforts of settlement on Left Unfinished Property owned.
- (2) Bank is required to document the efforts of Left Unfinished Property settlement as referred to in paragraph (1).

Article 34

- (1) Quality of Left Unfinished Property which has been under settlement efforts as referred to in Article 33 shall be classified as follows.
 - a. Current, if Left Unfinished Property is held up to 1 (one) year;
 - b. Substandard, if Left Unfinished Property is held more than 1 (one) year up to 3 (three) years;
 - c. Doubtful, if Left Unfinished Property is held more than 3 (three) years up to 5 (five) years;
 - d. Loss, if Left Unfinished Property is held more than 5 (five) years.
- (2) Quality of Left Unfinished Property which is under settlement efforts as referred to in Article 33 shall be classified one level lower than that stipulated as referred to in paragraph (1).

Part Four

Inter-office and Suspense Accounts

Article 35

- (1) Bank is required to make the efforts in the settlement of Inter-office and Suspense Accounts.
- (2) Quality of Inter-office and Suspense Accounts shall be classified as follows.
 - a. Current, if Inter-office and Suspense Accounts are recorded in Bank bookkeeping up to 180 (one hundred and eighty) days;
 - b. Loss, if Inter-office and Suspense Accounts are recorded in Bank bookkeeping for more than 180 (one hundred and eighty) days.

Part Five

Inventory

Article 36

- (1) Bank is required to identify and determine Inventory owned.
- (2) Inventory owned as referred to in paragraph (1) shall be approved by the Board of Directors and fully documented.
- (3) Bank is required to make the efforts in the settlement of Inventory owned and fully documented.

Article 37

- (1) Quality of Inventory which has been under settlement efforts as referred to in Article 36 shall be classified as follows.
 - a. Current, if Inventory is held up to 1 (one) year;
 - b. Substandard, if Inventory is held more than 1 (one) year up to 3 (three) years;
 - c. Doubtful, if Inventory is held more than 3 (three) years up to 5 (five)

years; ...

years;

- d. Loss, if Inventory is held more than 5 (five) years.
- (2) Quality of Inventory which is not under settlement as referred to in Article 36 shall be classified one level lower than that stipulated in paragraph (1).

CHAPTER V ALLOWANCE FOR ASSETS LOSSES

Part One

General Provisions

Article 38

- (1) Bank is required to establish PPA on Earning Assets and Non-earning Assets.
- (2) PPA as referred to in paragraph (1) comprises :
 - a. General reserves and special reserves for Earning Assets; and
 - b. Special reserves for Non-earning Assets.
- (3) PPA as referred to in paragraph (1) shall be established at least as referred to in this Bank Indonesia Regulation.

Part Two

Method of Establishment

Article 39

- (1) General reserves of PPA as referred to in Article 38 paragraph (2) letter a shall be no less than 1 % (one percent) of total Earning Assets classified Current, not including Bank Indonesia *Wadiah* Certificate and Securities and/or claims issued by the Government based on sharia principles.
- (2) Special reserves of PPA shall be no less than :

a. 5% ...

- a. 5% (five percent) of Assets classified Under Special Mention after deducted by collateral value;
 - b. 15% (fifteen percent) of Assets classified Substandard after deducted by collateral value;
 - c. 50% (fifty percent) of Assets classified Doubtful after deducted by collateral value; and
 - d. 100% (one hundred percent) of Assets classified Loss after deducted by collateral value.
- (3) Obligation to establish PPA as referred to in paragraph (1) and paragraph (2) shall not be in force on Earning Assets in the form of *Ijarah* or *Ijarah Muntahiyah bit Tamlik*.
- (4) Bank is required to establish amortization for *Ijarah* or *Ijarah Muntahiyah bit Tamlik* with stipulations as follows.
- a. *Ijarah* shall be amortized in accordance with Bank's amortization policy for assets of the kind;
 - b. *Ijarah Muntahiyah bit Tamlik* amortized in accordance with the term of leasing.
- (5) The use of collateral value as a subtracter in the calculation of PPA as referred to in paragraph (2) may only be applied on Earning Assets.

Article 40

The establishment of PPA for Earning Assets as referred to in Article 39 paragraph (1) and paragraph (2) for *Murabahah*, *Salam*, and *Istishna'* uses the amount of purchasing price balance or cost price balance.

Part Three

Appraisal on Collateral

Article 41

Collateral which may be assigned as a subtracter in the establishment of PPA shall comprise :

- a. *Wadiah* non-negotiable deposit and/or savings deposit, *Mudharabah* non-negotiable deposit, *Mudharabah* savings deposit and/or time deposit, and blocked guarantee deposit in rupiah and foreign currency enclosed with a power of attorney to disburse;
- b. Bank Indonesia *Wadiah* Certificate and/or securities and/or claims issued by the Government based on sharia principles;
- c. Sharia Securities with an investment rating, easily disbursable and actively traded in the capital market;
- d. Land, building, house, airplane, and sea ship with a size of over 20 (twenty) cubic meters;
- e. Vehicle and inventory bound under fiduciary term.

Article 42

Collateral value which may be assigned as a subtracter in the establishment of PPA as referred to in Article 39 and Article 41 shall be as follows.

- a. For collateral in the form of *Wadiah* non-negotiable deposit and/or savings deposit, *Mudharabah* non-negotiable deposit, *Mudharabah* savings deposit and/or time deposit, and blocked guarantee deposit in rupiah and foreign currency enclosed with a power of attorney to disburse at a maximum of 100% (one hundred percent);
- b. For collateral in the form of Bank Indonesia *Wadiah* Certificate and securities and/or claims issued by the Government based on sharia principles at a

maximum ...

maximum of 100% (one hundred percent);

- c. For collateral in the form of Sharia Securities at no more than 50% (fifty percent);
- d. For collateral in the form of land, building, house, airplane, sea ship, vehicle, and inventory at no more than :
 - 1) 70% (seventy percent) of appraisal, for appraisal conducted before surpassing 12 (twelve) months;
 - 2) 50% (fifty percent) of appraisal, for appraisal conducted after surpassing 12 (twelve) months but has not surpassed 18 (eighteen) months;
 - 3) 30% (thirty percent) of appraisal, for appraisal conducted after surpassing 18 (eighteen) months but has not surpassed 30 (thirty) months;
 - 4) 0% (zero percent) of appraisal, for appraisal conducted after surpassing 30 (thirty) months.

Article 43

Appraisal on collateral as referred to in Article 42 shall be exercised by these methods.

- a. Sharia Securities shall be appraised by market value recorded in the capital market at end of month;
- b. Land and house shall be appraised on Market Approach;
- c. Building, airplane, sea ship, vehicle, and inventory shall be appraised on Market Approach.

Article 44

- (1) Appraisal on collateral shall be conducted by Independent Appraiser for Financing extended to an individual or a group customer amounting to Rp5,000,000,000.00 (five billion rupiahs).
- (2) Appraisal on collateral may be conducted by Bank internal appraisal for

Financing amounting to lower than stipulated in paragraph (1).

- (3) If the appraisal on collateral is not conducted as referred to in paragraph (1), the result of the appraisal on collateral shall not be accounted as a subtracting factor of PPA.
- (4) If there are several values from independent or internal appraiser, Bank is required to take the lowest value.

Article 45

- (1) Bank Indonesia may recalculate collateral value which has been deducted in PPA, if :
 - a. Collateral is not fully equipped with valid documents and has not been bound over in accordance with applicable laws;
 - b. Appraisal is not exercised in accordance with stipulation as referred to in Article 42, Article 43, and Article 44; or
 - c. Collateral is not covered by insurance with a banker's clause, namely the clause giving Bank the right to regain insurance fund in case of occurrence of claim.
- (2) Insurance company giving insurance coverage on collateral as referred to in paragraph (1) letter c shall meet the following requirements.
 - a. Insurance company shall comply with stipulations on capital in accordance with those stipulated by competent institution; and
 - b. Insurance company shall be no Related Party with Bank or Borrower Group with Bank customer, except it is insured to an insurance company which is no Related Party with Bank or Borrower Group with Bank customer.
- (3) Bank is required to adjust the calculation of PPA in accordance with calculation stipulated by Bank Indonesia as referred to in paragraph (1) in

reports ...

reports to be submitted to Bank Indonesia and/or financial statement regulated in applicable stipulations by no later than the following reporting period after the notice of Bank Indonesia.

CHAPTER VI FINANCE RESTRUCTURING

Article 46

- (1) Bank is required to hold written policy and procedures on Finance Restructuring as follows.
 - a. Finance Restructuring shall be approved by the Board of Commissioners;
 - b. Restructuring procedures shall be approved at least by the Board of Directors;
 - c. The Board of Commissioners shall conduct an active supervision on the implementation of restructuring policy;
 - d. The restructuring policy and procedures are no separated parts from Bank risk management policy as referred to in applicable Bank Indonesia stipulations.
- (2) Bank may only conduct Finance Restructuring on customers meeting criteria as follows.
 - a. Customer has experienced or is expected to experience a decline or difficulty in ability to repay or to meet liabilities; and
 - b. Customer has a favorable business prospect and is able to meet liabilities after restructuring.
- (3) The restructuring efforts and mechanism as referred to in paragraph (1) shall be implemented referring to religious instructions of the National Sharia Council and applicable financial accounting standards for sharia banks.
- (4) Quality of restructured Financing is classified as follows.

a. As high ...

- a. As high as Substandard for Financing which prior to the restructuring was classified Doubtful or Loss;
 - b. The quality remains unchanged for Financing which prior to the restructuring was classified Current or Under Special Mention or Substandard.
- (5) Financing quality as referred to in paragraph (4) may :
- a. Become Current, if there is no arrear in payment of principal installments and/or of profit share/margin/fee or of other liabilities of the kind in consecutive 3 (three) time payment periods and/or as early as in 3 (three) months; or
 - b. Regain the quality prior to Finance restructuring or the actual quality if it is worse as compared to criteria as referred to in Article 9 or if debtor fails to comply with criteria and/or requirements in Finance Restructuring agreement and/or the implementation of Finance Restructuring is not supported with sufficient analysis and documentation.

Article 47

The sufficient analysis and documentation conducted by Bank in customer Finance Restructuring as referred to in Article 46 paragraph (5) letter b shall be as follows.

- a. Financing to be restructured shall be analyzed based on customer's business prospect and repayment ability in accordance with cash flow projection;
- b. Financing to Related Parties to be restructured shall be analyzed by a licensed independent finance consultant with a good reputation;
- c. The analysis by Bank and independent finance consultant on restructured Financing and each stage of implementation of Finance Restructuring shall be fully and evidently documented;

d. Stipulations ...

- d. Stipulations as referred to in letter a, letter b, and letter c shall also be applied in case of any repeated restructuring.

CHAPTER VII

WRITE OFF AND COLLECT OFF

Article 48

- (1) Bank is required to hold written policy and procedures on Financing write off and collect off as follows.
 - a. Policies on write off and collect off shall be approved by the Board of Commissioners;
 - b. Procedures of write off and collect off shall be approved at least by the Board of Directors;
 - c. The Board of Commissioners shall exercise an active supervision on the implementation of write off and collect off policies;
 - d. The policies and procedures of write off and collect off are no separated parts from Bank risk management policy as referred to in applicable Bank Indonesia stipulations.
- (2) Write off and/or collect off may only be exercised on financing of those classified Loss.
- (3) Partial write off may not be exercised.
- (4) Collect off may be exercised either on part or the whole Financing.
- (5) Collect off on part of Financing as referred to in paragraph (3) may only be exercised in the framework of Finance Restructuring or in Financing settlement.

Article 49

- (1) Write off and/or collect off as referred to in Article 48 may only be exercised

after ...

after Bank make various efforts to regain Earning Assets extended.

- (2) Bank is required to document the efforts as referred to in paragraph (1) and basic considerations of the implementation of write off and/or collect off.
- (3) Bank is required to administer data and information on the Earning Assets under write off and/or collect off.

CHAPTER VIII

SANCTIONS

Article 50

- (1) Bank failing to comply with stipulations as referred to in Article 2, Article 4, Article 5, Article 6, Article 7, Article 8 paragraph (1), Article 12 paragraph (5), Article 13 paragraph (2) and paragraph (3), Article 14, Article 17, Article 20 paragraph (1) and paragraph (2), Article 22, Article 28, Article 29, Article 30, Article 32, Article 33, Article 35, Article 36, Article 38, Article 39, Article 42, Article 43, Article 44 paragraph (1) and paragraph (4), Article 45 paragraph (3), Article 46 paragraph (1) up to paragraph (3), Article 47, Article 48, Article 49, and Article 55 is liable to administrative sanctions as referred to in Article 52 Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 including but not limited to :
 - a. written warning;
 - b. downgrading in bank rating; and/or
 - c. replacement of management.
- (2) In addition to the sanctions as referred to in paragraph (1), Bank failing to comply with stipulation in Article 17 is required to establish PPA amounting to 100% (one hundred percent) of the concerned assets.

CHAPTER IX ...

CHAPTER IX

CONCLUDING PROVISIONS

Article 51

Quality rating on Non-earning Assets as referred to in Article 28, quality rating on Non-earning Assets for OREO as referred to in Article 31, quality rating on Left Unfinished Property as referred to in Article 34, quality rating on Inter-office and Suspense Accounts as referred to in Article 35, quality rating on Inventory as referred to in Article 37, and quality rating on Allowance for Non-earning Assets Losses as referred to in Article 38 paragraph (2) letter b shall be in force 12 (twelve) months since the enactment of this Bank Indonesia Regulation.

Article 52

Further provisions on the implementation of Assets Quality Rating as referred to in this Bank Indonesia Regulation shall be stipulated in Bank Indonesia Circular Letter.

Article 53

Provisions as referred to in Bank Indonesia Board of Directors Decree Number 31/150/KEP/DIR dated November 12, 1998, concerning Credit Restructuring remains in force provided that it is not in contradiction with and/or not regulated in this Bank Regulation.

Article 54

With the enforcement of this Bank Indonesia Regulation,

- a. Bank Indonesia Regulation Number 5/7/PBI/2003 dated May 19, 2003, concerning Earning Assets Quality for Sharia Banks; and
- b. Bank Indonesia Regulation Number 5/9/PBI/2003 dated May 19, 2003, concerning Allowance for Earning Assets Losses for Sharia Banks

are revoked ...

- 35 -

are revoked and declared no longer valid.

Article 55

With the enforcement of this Bank Indonesia Regulation, Bank is required to adjust its operational guidelines relating to Assets quality rating.

Article 56

This Bank Indonesia Regulation shall be in force since January 1, 2007.

Enacted in Jakarta

Dated : October 5, 2006

THE GOVERNOR OF BANK INDONESIA,

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 78 OF
2006

DPbS

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER 8/21/PBI/2006
CONCERNING
THE QUALITY RATING
OF ASSETS OF COMMERCIAL BANKS CONDUCTING BUSINESS
BASED ON SHARIA PRINCIPLES

GENERAL REVIEW

Business developments of banks conducting business based on sharia principles depend on their ability to continuously able to accommodate community's need in sharia bank services which are more diversified in consistent compliance with sharia and prudential principles, where the ability will become one of factors serving as the basis of bank business sustainability. Bank business sustainability is dependant on performance, of which one key indicator is quality of investment of bank funds. A proper quality of fund investment will generate profits and it may thus become a source in the development of business. Considering that bank assets characteristics are continuously influenced by credit risk, it is necessary for banks to continuously improve policy and procedure of provision of funds including the rating of quality and establishment of allowance for assets losses. In addition, it is also necessary that assets portfolio is well managed and banks are able to anticipate changes in external factors which may influence the quality of provision of funds.

To determine ...

To determine the quality of provision of funds which reflects the level of credit risk exposure, it is necessary to reorganize definition and criteria of quality rating and establishment of allowance for assets losses on each provision of funds.

Pursuant to the considerations set forth above, it is deemed necessary to re-regulate stipulations concerning assets quality rating for sharia commercial banks in this Bank Indonesia Regulation concerning Quality Rating of Assets of Commercial Banks Conducting Business Based on Sharia Principles.

ARTICLE BY ARTICLE

Article 1

Number 1

Self-explanatory.

Number 2

Self-explanatory.

Number 3

Self-explanatory.

Number 4

Self-explanatory.

Number 5

Self-explanatory.

Number 6

Self-explanatory.

Number 7

Self-explanatory ...

Self-explanatory.

Number 8

Self-explanatory.

Number 9

Self-explanatory.

Number 10

Self-explanatory.

Number 11

Self-explanatory.

Number 12

Self-explanatory.

Number 13

Self-explanatory.

Number 14

Self-explanatory.

Number 15

Self-explanatory.

Number 16

Self-explanatory.

Number 17

Self-explanatory.

Number 18

Self-explanatory.

Number 19

Self-explanatory.

Number 20 ...

Number 20

Self-explanatory.

Number 21

Self-explanatory.

Number 22

Self-explanatory.

Number 23

Self-explanatory.

Number 24

Self-explanatory.

Number 25

Self-explanatory.

Number 26

Self-explanatory.

Number 27

Self-explanatory.

Number 28

Self-explanatory.

Number 29

Self-explanatory.

Number 30

Self-explanatory.

Number 31

Self-explanatory.

Article 2

Paragraph (1)

“Prudential principles in fund investment” is investment of Bank funds conducted on the basis, among other things, of :

- 1) Analysis of business viability taking into account at least the 5C factors, namely Character, Capital, Capacity, Condition of the economy, and Collateral;
- 2) Assessment of business prospect, performance, and repayment ability.

Paragraph (2)

“Monitor” means keeping a watch for changes in the business performance of the customer from time to time.

“Take anticipatory measures” means taking actions and preventive measures to protect against the possibility of default in fund investment.

Article 3

Self-explanatory.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Included in notice is the notice given by Bank Indonesia to Bank in exit meeting in the framework of Bank supervision

Article 5

Paragraph (1)

Customer in this paragraph is an individual or a legal entity which becomes a special entity and generates cash flow as a source of Earning Assets repayments.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Example :

Bank A extends *Mudharabah* and *Murabahah* Financing to debtor X. The result of rating conducted by Bank A on respective earning assets is as follows.

- a. Under Special Mention, for *Mudharabah*
- b. Substandard, for *Murabahah*

Since Financing is used to finance 1 (one) customer, the Earning Assets quality rating by Bank A for customer X shall take the lowest quality, namely Substandard.

Paragraph (4)

Financing quality shall be based on rating factors of business prospect, customer performance, and repayment ability. Securities quality generally shall be based on rating factors of level, promptness of payments of profit share/margin/fee or other liabilities of the kind, and time of maturity. Since there are differences in factors of the rating of quality of financing with securities, the quality of financing with securities may be rated

differently ...

differently although for a single customer.

Paragraph (5)

A lower Earning Assets quality which is merely resulted from the usage of additional rating factor of the Republic of Indonesia country risk shall not influence Earning Assets quality rating result for a same customer in another Bank which is rated with rating factors as stipulated in applicable Bank Indonesia Regulation concerning Quality Rating on Commercial Sharia Bank Assets.

Article 6

Paragraph (1)

Obligation to audit financial statement is aimed at accuracy and reliability of customer financial statement considering that customer's financial condition shall be one of criteria in the Earning Assets quality rating.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Applicable laws include but not limited to Government Regulation Number 24 of 1998 concerning Company Annual Financial Information as mended by Government Regulation Number 64 of 1999.

Paragraph (4)

Self-explanatory.

Article 7

Self-explanatory ...

Self-explanatory.

Article 8

Paragraph (1)

“Fully documented” is defined as at least the availability of documentation of fund investment including application, analysis, decision, and monitoring on fund investment, and its changes.

Paragraph (2)

Self-explanatory.

Article 9

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 10

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Customer in this letter is required to make the efforts to

manage ...

manage living environments in accordance with applicable laws.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 11

Self-explanatory.

Article 12

Paragraph (1)

Achievement of the ratio of Realized Revenues (RR) to Revenue Projection (RP) shall be calculated as follows.

$$Q = \frac{RR}{RP} \times 100\%$$

In which :

Q = Revenue Achievement Ratio

RR = Realized Revenues, revenues received by Bank from customer

RP = Revenues Projection, revenues to be received by Bank from customer

Paragraph (2)

Average accumulation in the duration of realized Financing is :

Example 1

For *Mudharabah* and *Musyarakah* Financing with a term of 1

(one) ...

(one) year beginning from January 1, 2005 up to December 31, 2005, and is rated in January 2006, it means that RR and RP to be used is the accumulated amount from January up to December 2005.

Example 2

For *Mudharabah* and *Musyarakah* Financing with a term of 6 (six) months, which has been realized only for 3 (three) months, the accumulation used is only the realized term of 3 (three) months.

Paragraph (3)

For example, in the case of Financing with a 2-year term, with payment of profit share scheduled every 6 months, the RP shall be determined every 6 months as follows.

1. 1st 6 month RP = Rp xx or x %
 2. 2nd 6 month RP = Rp yy or y %
- etc.

Paragraph (4)

Self-explanatory.

Paragraph (5)

“Fully documented” is defined as at least the availability of documentation on fund investment including application, analysis, decision and monitoring on fund investment and other files related to RP, and its changes.

Paragraph (6)

Self-explanatory ...

Self-explanatory.

Article 13

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 14

Self-explanatory.

Article 15

Paragraph (1)

Investment objective is held by Bank to maturity.

Paragraph (2)

“Difficulty in liquidity” means that Bank is assumed to experience a shortage in funds which is indicated by a decrease in Minimum Reserve Requirement ratio approaching the stipulated minimum ratio.

Article 16

Paragraph (1)

Sharia Money Market Securities are included but not limited to *Mudharabah* Interbank Investment Certificate (SIMA).

Letter a

“Transparent” includes but not limited to securities information to be reported into money market information

system ...

system in Bank Indonesia.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Securities linked or guaranteed with underlying reference assets include but not limited to mutual fund certificate, credit linked note, and asset guaranteed securities based on sharia principles.

Letter d

Other securities based on sharia principles include but not limited to securities issued by financial companies listed in the International Islamic Financial Market or issued by Islamic Development Bank.

Paragraph (3)

Investment rating and rating agency recognized by Bank Indonesia are based on applicable stipulations concerning Rating Agency and Rating Approved by Bank Indonesia.

Article 17

Paragraph (1) ...

Paragraph (1)

Ownership on securities linked or guaranteed by underlying reference assets in the form of share may only be implemented in the objective of Equity Participation or Temporary Equity Participation and shall be approved by Bank Indonesia as referred to in applicable Bank Indonesia stipulations.

Paragraph (2)

Letter a

The existence of an asset may be relied on if, among other things, the asset is deposited in a custodian bank, Indonesian Securities Central Custodian (KSEI), or Bank Indonesia.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Article 18

Paragraph (1)

Repayments of securities liabilities are considered directly related to underlying assets (pass through) if the repayments of securities principal/profit share/fee merely originate from repayments of underlying assets margin/profit share/fee.

Paragraph (2)

Letter a ...

Letter a

The rating on mutual fund quality refers to stipulations on securities quality rating on mutual fund certificate as a product and not on every kind of asset underlying the mutual fund certificate.

Letter b

The quality of mutual funds is rated based on the quality of any kind of underlying assets and the quality of mutual fund certificate issuer, with stressing includes but not limited to :

1. either performance, liquidity, and reputation or other related parties, such as insurance; and
2. diversification of portfolio held by issuer which considers risk and prudential principles.

Article 19

Self-explanatory.

Article 20

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 21

Paragraph (1)

Self-explanatory ...

Self-explanatory.

Paragraph (2)

Cumulative profit is a company profit after accounted with previous years' losses.

Paragraph (3)

A sale value which is lower than the book/residual value and/or difficulties of selling in the period of 5 (five) years are caused, among other things, by weakness in financial condition, company management, market condition, or a low demand for company shares.

Paragraph (4)

Self-explanatory.

Article 22

Self-explanatory.

Article 23

Self-explanatory.

Article 24

Minimum Capital Requirement (KPMM) ratio is the KPMM ratio as stipulated by the competent authority on bank receiving Placements.

KPMM ratio is based on the latest condensed financial statement in accordance with the period stipulated by the competent authority. In the event of an absence of the latest condensed financial statement or KPMM data in the latest condensed financial statement, bank shall be considered to have KPMM lower than the applicable stipulation.

Article 25

Self-explanatory ...

Self-explanatory.

Article 26

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Article 27

Limit of Financing facility extended and other provision of funds shall be counted in the whole facility received by any customer, either individual customer or Borrower Group, from a Bank.

Other Financing and provisions of funds to customer with business activities located in a specific area is Financing or provision of funds from Bank for investment and/or working capital in a certain area which, according to Bank Indonesia, needs special treatments to encourage economic development in the concerned area.

Other provision of funds is the issuance of guarantee or opening of L/C.

Article 28

Self-explanatory.

Article 29

Paragraph (1)

This regulation is intended to encourage Bank to conduct business in accordance with its function in the collection and extension of community's funds. The settlement efforts may be taken, among other things, through active marketing and selling of OREO.

Paragraph (2)

Documentation includes but not limited to data and information evidences of efforts in the marketing and selling of OREO.

Article 30

Paragraph (1)

Net realizable value is collateral's proper value deducted by estimated costs of discharge. Maximum net realizable value amounts to the value of Earning Assets to be settled with OREO.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 31

Self-explanatory.

Article 32

Paragraph (1)

Left Unfinished Property is a fixed asset in the form of property owned by Bank but not used in the Bank's customary business activities. Included in Bank's customary business activities is a property used to support Bank business activities, provide that it is held in a proper number, such as official's house and property used for educational means, and other properties stipulated to be used by Bank in business activities in the near future but not including for Bank's properties categorized in accordance with applicable religious instructions and stipulations concerning *Ijarah* assets.

Paragraph (2) ...

Paragraph (2)

Self-explanatory.

Article 33

Paragraph (1)

This regulation is intended to encourage Bank to conduct business in accordance with its function in collection and extension of community's funds. The settlement efforts may be taken, among other things, through active marketing and selling of Left Unfinished Property.

Paragraph (2)

Documentation includes but not limited to data and information evidences of efforts in the marketing and selling of Left Unfinished Property.

Article 34

Self-explanatory.

Article 35

Paragraph (1)

It is necessary that settlement efforts shall be made in order that all Bank transactions are approved and recorded based on transaction characteristics and it is expected to minimize possible 'engineered' transactions which may bear losses to Bank.

Paragraph (2)

Inter-office Account to be rated is Inter-office Account assets without set off by Inter-office Account liabilities, considering that it is not confirmed that the transaction counter party is the same

party ...

party or office.

Article 36

Paragraph (1)

Identification and establishment of Inventory include identification and establishment of Inventory as defined in Article 1 number 27.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Settlement efforts include but not limited to active marketing and selling of Inventory in accordance with Inventory characteristics in the framework of the settlement of transaction underlying the emergence of Inventory.

Documentation includes but not limited to data and information evidences of efforts in the marketing and selling of Inventory.

Article 37

Self-explanatory.

Article 38

Paragraph (1)

Establishment of PPA for Non-earning Assets is intended to encourage Bank to make the settlement efforts and to anticipate potential losses.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory ...

Self-explanatory.

Article 39

Paragraph (1)

Self-explanatory.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Amortization for *Ijarah* and/or *Ijarah Muntahiyah bit Tamlik* refer to applicable financial accounting standards for sharia banks.

Paragraph (4)

Letter a and b

Amortization policy to be made shall reflect consumption pattern to be expected from the benefit of *Ijarah* economic objects in the future.

Article 40

Amount of purchasing price balance or cost price balance is the amount of debit balance deducted by deferred margin for *Murabahah* and *Istishna'*, and debit balance amount of the reporting month for *Salam*.

Article 41

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Investment rating is based on the rating issued by rating agency

recognized ...

recognized by Bank Indonesia in the latest one year. In the event of any absence of rating issued by the rating agency in the latest one year, the securities are considered not holding rating.

Letter d

Self-explanatory.

Letter e

Collateral binding under fiduciary term shall be in accordance with applicable stipulations and procedures in laws, including but not limited to registration, thus Bank holds a preference right on the concerned collateral.

For inventory of moveable goods stored in warehouse categorized eligible to be issued a warehouse receipt, guarantee right charge on the warehouse receipt is exercised based on an agreement as referred to in Act Number 9 of 2006 dated July 14, 2006, concerning Warehouse Receipt System.

Article 42

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Appraisal is a written statement of an Independent Appraiser or a Bank internal appraiser on appraisal and opinion on the economic

value ...

value of a collateral in the form of fixed assets based on analysis on objective and relevant facts in accordance with commonly applicable method and principles stipulated by competent association or institution.

Article 43

Self-explanatory.

Article 44

Paragraph (1)

Limitation of Rp5,000,000,000.00 (five billion rupiahs) is counted in all facilities extended to customer or customer group.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Article 45

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Paragraph (2)

Self-explanatory ...

Self-explanatory.

Paragraph (3)

Included in notice is the notice given by Bank Indonesia to Bank in exit meeting in the framework of Bank supervision.

Article 46

Paragraph (1)

Written policy and procedures include but not limited to official and working unit holding authority in the process of restructuring, process of the analysis on provision of funds to be restructured, and periodic report on restructuring.

Paragraph (2)

In the event that Bank estimates customer business condition to experience a decrease or difficulty in repayment ability or liability fulfillment, it shall be supported by sufficient analysis and evidences and well documented.

Paragraph (3)

Restructuring efforts and mechanism in accordance with applicable stipulations are, among other things, that for *Murabahah* may be conducted through granting of discount from total payment of liabilities, rescheduling, and conversion of *Murabahah* agreement conducted in accordance with applicable religious instructions of the National Sharia Council.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Letter a ...

Letter a

In the event that the term of payments of principal installments and/or profit share/margin/fee is less than 1 (one) month, the quality improvement to become Current may be conducted by no earlier than 3 (three) months since restructuring.

Letter b

Self-explanatory.

Article 47

Self-explanatory.

Article 48

Paragraph (1)

Write off is a Bank administrative measure to write off Financing with a quality classified Loss from balance sheet amounting to customer's liabilities without any revocation on Bank's collecting right to customer.

Collect off is a measure taken by Bank to write off customer's liabilities which can not be settled.

Write off and collect off policies and procedures include but not limited to criteria, requirement, limit, authority, accountability, and methods.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Write off shall be conducted on all Financing extended and be

bound ...

bound in an agreement.

Paragraph (4)

Self-explanatory.

Paragraph (5)

Collect off in the framework of Finance Restructuring and Financing settlement is aimed at interest transparency to customer.

Financing settlement may be conducted through collateral takeover or settlement by customer.

Article 49

Paragraph (1)

Efforts which may be made include but not limited to in the form of collection to customer, Finance Restructuring, payment request to the party extending guarantee on the concerned Earning Assets, and Financing settlement through collateral takeover.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Article 50

Self-explanatory.

Article 51

Self-explanatory.

Article 52

Self-explanatory.

Article 53 ...

Article 53

Self-explanatory.

Article 54

Self-explanatory.

Article 55

Self-explanatory.

Article 56

Self-explanatory.